

5 ECONOMIC PROSPECTS AND OPERATING PLAN FOR THE NEXT HALF YEAR

Generally, the power grid construction during the period of the “11th Five-Year Plan” will maintain a rapid growth rate. However, this year, the start-up year of the “11th Five-Year Plan”, has seen relatively softer demand, while currently some electrical products of short production cycle tend to suffer from insufficient demands due to the overheated construction over past years. To address the problem, the Company has adjusted its strategies including enhancement of market promotion and allocation of resources in a scientific manner. The Company will spare no efforts to accomplish the plans for the year in the second half of 2006.

6. EXPLANATION BY THE COMPANY’S MANAGEMENT ON THE CHANGES OF QUALIFIED OPINIONS AND RELATED MATTERS CONTAINED IN THE AUDITORS’ REPORT OF 2005 AND THE PROCESSING THEREOF

A qualified opinion with an emphasised matter contained in the 2005 financial report was provided by the auditors.

The Board and the Supervisory Committee are of opinion that, with the virtual completion of disposal of equity interest in Shenyang High-voltage Switchgears Co. Ltd. and Jinzhou Power Capacitors Limited in 2004 and 2005, the issues related to the qualified opinion addressed in the 2005 audited report has been removed. Thus, no material impacts will be incurred as to net assets of the Company for the end of the reporting period and to the operating results of the Reporting Period and the following years thereafter.

As for the litigation lodged by China Development Bank (the “Bank”), being the emphasised matter, the lawyer issued a letter of legal opinion suggesting that the transfer of equity interests of the Company was legally valid without breach of mandatory provisions of the PRC laws, thus the claims of the Bank shall not be supported by the court. The outcome of the ruling would not cause material impact on the Company’s overall operating results. Please refer to “4. Material Litigation and arbitration” under Section 6 “Significant Event” for the progress of the case.

SIGNIFICANT EVENTS

1. PERSONNEL MOVEMENT

On 18 April 2006, the Board of Directors considered and approved the appointment of Mr. Shi Li as the Deputy General Manager of the Company.

2. CORPORATE GOVERNANCE STRUCTURE

During the reporting period, the Company has continued to improve its corporate governance structure while establishing a modern business system and regulating its operation in accordance with the relevant laws and regulations for listed companies. The Company has set up an internal supervisory mechanism and optimized its running, and the Board of Directors has formed a strategic development committee, an audit committee, an investment committee, a remuneration committee and a nomination committee. The independent directors system has become perfect and optimized gradually. In addition, the Company has amended the Articles of Association in accordance with “regarding regulations of enhancing protection to equity interests of shareholders of public shares” and the newly revised regulations of “listing rules of securities of Shenzhen Stock Exchange” of the China Securities Regulatory Commission so as to warrant the consistency of the Article of Association with related regulations, thus achieving an improvement in its corporate governance structure.

3. PROFIT APPROPRIATION PLAN AND ITS IMPLEMENTATION

During the reporting period, the Company recorded net profit of RMB9,663,612.79 all of which was used to cover loss incurred in the previous year. Therefore, no profit appropriation was made nor any reserves were transferred to increase the share capital of the Company during the reporting period.

4. MATERIAL LITIGATION AND ARBITRATION

1. Litigation brought by China Development Bank on RMB150,000,000

The Bank brought a litigation to the Company for repayment of the principal of the loan of RMB150,000,000 and the interest accrued thereon by Shenyang High-voltage Switchgears Company Limited (“Shenyang High-voltage”), and the claim that the Company accept joint and several liabilities thereunder. On 18 March 2005, Beijing Higher People’s Court awarded a civil ruling (2004) Gao Min Chu Zi No. 802 that the claims under the litigation lodged by the Bank against New Northeast Electric (Shenyang) High-voltage Switchgears Limited, Shenyang Suntime High-voltage Electric Company Limited, Shenyang Chengtai Energy Power Company Limited, Shenyang Suntime Storage and Logistics Company Limited and Northeast Electric Development Company Limited are overruled. On 23 March 2005, the Bank petitioned to the Supreme People’s Court of China. To date, the Court has not made the final judgement. For details, please refer to the designated newspaper for disclosure on 25 March 2005 and 31 March 2005.

2. Litigation lodged by Shenyang representative office of Xinda Asset Management Corporation (“Xinda”) on dispute over a loan contract

Xinda lodged against the Company in relation to a loan of RMB28,350,000 borrowed by Shenyang High-voltage and for acceptance of joint liabilities. It demanded the Company to undertake joint liabilities for the discrepancy of Shenyang High-Voltage’s investment amount and the outstanding make-up amount of the investment on 12 May 2005. On 20 March 2006, Liaoning’s High Court gave the civil judgment (2005) Liaominsanchuzi No. 8. It was decided that Shenyang High-Voltage and Jinzhou Capacitors shall undertake the liabilities for compensation and the plaintiff’s claim against the Company was retorted. The plaintiff has lodged an appeal with the Supreme People’s Court on 13 April 2006. Currently, the litigation is in progress of hearing. Please refer to the designated newspaper for disclosure on 28 March 2006 for details.

3. Debt and equity case brought by Liaoning Trust and Investment Company (“Liaoning Trust”) on US\$12 million

The Company deposited US\$20 million in Liaoning Trust in 1999. In November 2002, the liquidation team of Liaoning Trust repaid US\$8 million to the Company and agreed to repay the outstanding deposit of US\$12 million with an equivalent amount of assets. On 1 June 2005, Liaoning Trust transferred the RMB25 million (the principal and the interest accrued thereon) due from Jinhua Chemical Group Company Limited (“Jinhua”) to the Company. The relevant transfer procedure of equity with Shenzhen branch of China Securities Depository and Clearing Corporation Limited was completed on 9 March 2006. As to the remaining debt owed by Liaoning Trust to the Company, the Company has taken over the debt and equity owed by Ben Xi Iron Group from Liaoning Trust, which is enforced by legal means.

4. Litigation lodged by ShuangJia Insulator & Electric Co., Ltd. (“ShuangJia”) on dispute over payment of goods

ShuangJia lodged a case with the Intermediate People’s Court of Xian City (“Xian’s Intermediate Court”) in April 2004 against Shenyang High-Voltage in relation to the disputes on payment of goods. In light of the Company was a former shareholder of Shenyang High-Voltage and had property transactions with Shenyang High-Voltage, the Company was thereby regarded as joint defendants in the case. The First Instance of the Xian’s Intermediate Court and the Final Judgment of Shaanxi’s High Court made verdicts for the premises that the Company shall take the responsibility for repayment. The Company was in opinion that Xian’s Intermediate Court and Shaanxi’s High Court are materially in violation to the statutory procedure, and the fact and laws applied were not appropriate. The Company has lodged application for re-judgment in Shaanxi’s High Court. Currently, the case is in the process of re-judgement by Shaanxi’s High Court. For details, please refer to the designated newspaper for disclosure on 28 March 2006.

5. Change of Auditor

The appointment of ShineWing Certified Public Accountants Co., Ltd. and ShineWing (HK) CPA Limited as domestic and international auditors of the Company for a term of one year was considered and approved at the 2005 Annual General Meeting held on 2 June 2006, and the Board was authorized to determine their remuneration.

6. Cancellation of other special treatment on A Shares

The special treatment on the trading of A Shares of the Company was cancelled, as approved by Shenzhen Stock Exchange, with effect from 24 April 2006.

7. Acquisition and disposal of assets of the Company in the reporting period

The Company had no acquisition or disposal of assets in the reporting period.

8. CONNECTED TRANSACTION

Pursuant to the requirement under the Rules Governing the Listing of Securities on Shenzhen Stock Exchange (2006 revised) regarding the relations with connected parties, during the reporting period, the Company did not have any transactions with the aforesaid connected parties, or any relations of creditor's rights and debt with the aforesaid connected parties.

9. THE CONTROLLING SHAREHOLDERS OF THE COMPANY AND FUND CONTRIBUTED TO SUBSIDIARIES

During the Reporting Period, no funds of the Company were used by the controlling shareholders or the subsidiaries of the Company.

10. GUARANTEE PROVIDED TO CONTROLLING SHAREHOLDERS OF THE COMPANY AND ITS SUBSIDIARIES

During the Reporting Period, there was no guarantee provided by the Company to its controlling shareholders and its subsidiaries.

11. SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS

(1) During the reporting period, the Company did not enter into any material guarantee, trust, contractual or lease arrangement in respect of the assets of other companies. Nor did other companies enter into any trust, contractual or lease arrangement in respect of the Company's assets. Nor did the Company have any asset management on trust or designated loan during the reporting period.

(2) Guarantees:

1 External guarantees

As at the end of the reporting period, the total guarantees granted by the Company amounted to RMB55,360,000, of which the guarantee granted to Shenyang High-voltage Switchgears Company Limited and Jingzhou Power Capacitor Company Limited amounted to RMB2,460,000 and RMB52,900,000 respectively.

2 Guarantees granted by the Company to its controlling subsidiaries

As at the end of the reporting period, the amount of guarantees provided by the Company to its controlling subsidiary and the guarantees among the subsidiaries totalled RMB57.81 million.

3 Guarantees for the companies with a gearing ratio over 70%

As at the end of the reporting period, the Company's guarantees for the companies with a gearing ratio over 70% amounted to RMB55.36 million, representing 6.94% of audited net assets value of the Company for 2005, including a guarantee of RMB2.46 million granted to Shenyang High-voltage Switchgears Company Limited and a guarantee of RMB52.9 million granted to Jinzhou Power Capacitor Company Limited. The said guarantees were provided when the two companies were the then subsidiaries of the Company. During the reporting period, the Company dealt with former guarantees under the principle of releasing responsibility of guarantee on maturity date of contracts or gradual lowering of guarantee amount. As a result, a total of RMB3.7 million of external guarantees was reduced.

(3) Significant Contracts

Please refer to item 3 of the paragraph headed "4. MATERIAL LITIGATION AND ARBITRATION" in Section 6.

12. PURCHASE, SALE AND REDEMPTION OF SHARES

During the reporting period, the Company and its subsidiaries did not purchase, sell or redeem any listed shares of the Company.

13. CORPORATE GOVERNANCE**(1) Corporate governance practice code**

The Board of the Company confirmed that the Company has complied with the provisions of the corporate governance practice code for the six months ended 30 June 2006. The provisions of the corporate governance practice code includes the terms set out on appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”).

(2) Audit Committee

The Company has established the Audit Committee in accordance with Rule 3.2.1 of the Listing Rules.

The Audit Committee, together with the management, has reviewed the accounting principles, accounting standards and methods adopted by the Company and has studied matters in relation to auditing, internal control and financial reporting, including the financial accounting principles, standards and methods adopted in preparing the unaudited accounts for the six months ended 30 June 2006. The Audit Committee consented the financial accounting principles, standards and methods adopted in preparing the unaudited accounts for the six months ended 30 June 2006.

(3) Independent non-executive director

The Company has complied with the requirement of Rule 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of adequate number of independent non-executive director, and at least one independent non-executive director has the necessary suitable professional qualification or has suitable accounting or relevant financial management expertise. The Company has appointed five independent non-executive directors, of which one independent non-executive director has the expertise of financial management. Details of the profile of independent non-executive director can be referred to the 2005 annual report of the Company.

(4) Model Code for the Securities Transaction carried out by Directors of Listed Company (“Model Code”)

During the reporting period, the Company has adopted a set of behavioral code not lower than such standard set out in the Model Code. Having made specific enquiries, no directors and supervisors of the Company were in breach of the standard of requirement in securities transaction of directors set out in the Model Code of appendix 10 of the Listing Rules.

14. SUBSEQUENT EVENTS

Nil

DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the office of the Board of Directors of the Company:

1. The interim report as signed by the Chairman;
2. The financial report as signed and sealed by legal representative, the person in-charge of finance and the head of the financial department;
3. The originals of all of the documents and announcements of the Company which have been disclosed in prescribed newspapers during the reporting period.